II. PURPOSE OF REPORT IN THE CONTEXT OF RESTRUCTURING

A. Commission goals for renewables in restructuring

In its restructuring decision, the Commission stated its "commit[ment] to establishing restructuring policies which maintain California's resource diversity for existing resources as well as encourage development of new renewable resources" (p. 147). The Commission also indicated a need to find policy mechanisms that do not put utilities at a disadvantage in the move toward a more market-based electric services industry (p. 143).

To meet these goals, the Commission adopted a "minimum renewables purchase requirement" to be imposed on retail providers of electricity or on generators, with a "meaningful penalty for noncompliance" (p. 150-151). Regardless of where the obligation rests, the Commission noted that it would be a "condition of certification" for all obligated entities. "We prefer that the requirement be set at the same level for all electric utilities on a statewide basis, but recognize that it may be appropriate to develop a transitional strategy given the current resource portfolios of some utilities" (p. 150). Credits for meeting this requirement would be tradable "in order to allow retail providers the most flexibility in meeting this requirement." The Commission indicated that it "may be appropriate to establish floors for certain technology types, in order to maintain the diversity of our renewable resources" (p. 151).

The Commission noted that the market-based approach that it adopted "will allow buyers and sellers to search the market for the best renewables bargains and to internalize such costs in their prices without the need for a surcharge to fund renewables development. Establishing a surcharge to fund new renewables development would require some sort of prescribed allocation mechanism or bidding procedure to disperse the funds. We could use an administrative approach to ensure compliance, but after our experience in the BRPU we are hesitant to do so. The minimum renewables requirement approach will allow the market to provide the most cost-effective renewable resources, without our intervention" (p. 151).

In terms of timing, the Commission stated that “we would expect that these minimum renewables levels would be in place beginning in 1998 and continuing through 2000, at which point we would revisit whether the requirement should be modified.” With respect to stranded costs, the Commission also stated: “Allowing providers to trade in order to meet the renewables requirement may also serve to minimize the stranded costs associated with existing QF contracts by providing new markets for QFs’ power” (Decision, p. 151). The Commission stated that customers who disconnect from the grid will avoid paying the CTC.

B. Implementation Issues

The Commission has specifically identified a number of implementation issues and requested the Renewables Working Group to report back with recommendations on these issues. In

addition, the Working Group has identified additional implementation issues that need to be addressed as part of the Commission's minimum renewables purchase requirement policy, as well as a set of linkages to other areas of restructuring that require attention. These issues are identified generically in the following subsections. In Section III of this report, the questions are answered in the context of each of the specific implementation strategies that are proposed by members of the Working Group. Where appropriate, rationales for the answers are also be provided in Section III.

1. Issues that Can be addressed by the CPUC

a. What is the Obligation?

a.1. How is "renewables generation" defined for purposes of qualifying for tradable "Renewable Energy Credits" under this proposed program? Do existing and incremental utility-owned renewable-resource generation qualify for Renewable Energy Credits?

a.2. What are renewable energy credits? How do they relate to energy portfolio management?

a.3. How is a diversity of renewables encouraged?

a.4. Are currently-high-cost technologies or pre-commercial technologies fostered by this program?

a.5. How is renewable self-generation handled? Is self-generated renewable energy eligible for Renewable Energy Credits, or for other means of support?

Note: Other possibilities to support self-generation of renewables include energy-efficiency or RD&D program funding from the Public Goods Charge, or requiring utilities to pass through localized or systemic T&D savings to customers and third parties who install distributed renewables systems.

a.6. How are hybrid fossil-fuel/renewable facilities handled?

a.7. Does out-of-state generation qualify for Renewable Energy Credits? Is it desirable or necessary to protect in-state California renewable energy generators from out-of-state competition? Is it possible?

a.8. If hydro is included, how are practical issues associated with hydropower handled?

Note: These issues include but are not limited to: responding to large year-to-year fluctuations in output; defining "environmentally mitigated" hydro; guarding against Northwest hydro capturing the renewables market created by the requirement; and avoiding cross-subsidizing other uses of hydro facilities, such as irrigation, flood control, recreation, etc.

a.9. How is utility-owned generation of distributed renewables handled? Is it eligible to receive RECs or surcharge funds? Does the proposal permit RECs or surcharge funds to accrue to distributed or other renewable applications that may involve the cross-subsidization of generation with T&D savings, or vice-versa? Does the proposal permit or prohibit distributed or other utility-owned renwable power not sold through the power exchange to receive credits or surcharge funds?

Note: The CPUC ruled that during the five-year transition to direct access, UDCs must sell all of their electric generation (presumably central or distributed) through the Exchange, and must serve their customers with power purchased solely through the Exchange. Taking power outside of the Exchange is prohibited. Some applications of distributed renewables may not, however, lend themselves to sale through the Exchange.

a.10. Are existing and incremental utility-owned renewables included?

a.11. What is the level for the requirement? How does this level relate to the level of renewables from 1990 to the present? Does the level of the requirement increase over time, and, if so, at what rate?

a.12. Describe how, if at all, the compliance obligation adjusts during a transition period?

a.13. Does the proposal include a uniform requirement for all electricity providers on a state-wide basis?

a.14. What is the time-horizon for the program?

Note: Financing of new renewables facilities, which increases competition, may be contingent on an expectation that a market for renewable power will exist for an extended period of time.

a.15. Is the requirement established on a percentage of Megawatts or percentage of Megawatt-hours basis?

a.16. Does the proposal establish floors for certain technology types? What is the rationale for a technology floor, if proposed?

b. Where is the Obligation to Comply?

b.1. On whom is the requirement applied? . Is the requirement applied only to entities under the Commission's jurisdiction, or is it applied statewide?

Note: The Commission suggested either retail providers of electricity or generators

b.2. Are regulated retail providers treated similarly to unregulated retail providers? If not, what are the differences?

b.3. What is the penalty for non-compliance? Should this penalty be interpreted as a cost-cap for the program?

b.4. How is non-compliance determined? Who is responsible for determining non-compliance and for resolving disputes arising from such a determination?

b.5. What provisions add flexibility to compliance, if any?

b.6. How does the program ensure that the policy and its costs are nonbypassable, such as the CTC or the Public Goods surcharge?

c. How are Renewable Energy Credits Initially Allocated?

c.1. How are Renewable Energy Credits generated from existing renewable facilities (QFs and utility-owned) initially allocated? What impact does the initial allocation have on whether a vigorous market for Renewable Energy Credits, characterized by many buyers and sellers, forms?

c.2. What is the relationship between the allocation of Renewable Energy Credits and the CTC or Public Goods Surcharge? Will Renewable Energy Credits accrue to technologies, such as on- and off-grid renewables, in a way that would encourage customers to disconnect from the grid or otherwise avoid part or all of the CTC and Public Goods Surcharge?

c.3. If customers or ratepayers are initially allocated Renewable Energy Credits, how are the credits administered?

c.4. How would the proposed Renewable Energy Credit allocation affect negotiations to buy out existing QF contracts? Would it encourage or discourage such buyouts? Would it make them more or less cost-effective to ratepayers?

c.5. How does the initial allocation deal with the possibility of windfall profits accruing to individual renewables generators, or types of generators?

c.6. Does the proposal potentially increase the value of utility-owned renewable resources in a way that would encourage their divestiture? If so, how should ratepayer interests be addressed?

d. How is the Program Administered?

d.1. What agency certifies Renewable Energy Credits?

d.2. What mechanisms are proposed for trading of Renewable Energy Credits? How do the trading mechanisms relate to the initial allocation of Renewable Energy Credits?

d.3. What mechanisms are proposed for program oversight and midcourse corrections?

d.4. What agency monitors and enforces compliance with the program, and how is it carried out?

e. Cost-Related Issues

e.1. What are the costs associated with the program, and who pays?

Note: Cost reduction can occur in three ways: First, to the extent that programs encourage competition among renewable generators, the price of renewable power should decline. Second, to the extent that proposals build confidence in the long-term viability of the renewable power industry, financing costs could decline, and competition increase, lowering the cost of renewable generation. Third, costs associated with program structure and operation may differ from one proposal to the next.

e.2. What cost-containment measures, if any, are provided?

e.3. If the program utilizes floors for certain technology-types, what are the cost implications?

e.4. Will implementation of the program lead to cost-shifting between consumer groups or regions of the state?

e.5. How is competition within and between renewable technologies encouraged? Between existing renewables facilities and potential new facilities?

e.6. What implications, if any does the proposal have in defining the roles of the LDC and of competitive suppliers of electricity?

e.7. What is the consistency of this proposal in relation to cost-related guidance provided by the PUC Roadmap?

f. How does the Program Fit with Other Aspects of Electric Industry Reform?

f.1. Is the Program compatible with the existence of an Independent System Operator? A Power Exchange? A Direct Access Market? Is the Proposal consistent with the Commission's vision of the role of the Power Exchange and ISO?

f.2. Is the Program dependent in any way on the Power Exchange or ISO? If so, are any additional protocols necessary?

f.3. Does the proposal involve conflicts of interest between distribution and competitive retail service? If so, how are they resolved?

f.4. How does the program avoid conflicts of jurisdiction between state and federal levels?

f.5. What is the relationship between the Proposal and Direct Access "Green Marketing"?

f.6. What is the relationship between the proposal and Performance Based Ratemaking (PBR)? Does the proposal place Renewable Energy Credits under PBR, or exclude Renewable Energy Credits from PBR?

f.7. Does the Program create any potential for market-power problems involving the generation market or Renewable Energy Credits?

Note: Generation-market power includes system-level and locational market-power.

f.8. Does the proposal relate to any consumer protection or consumer education efforts? For example:

(a) Rules for New Entrants. Does the proposal entail any licensing requirements for new entrants? Should compliance with the minimum renewables requirement be a condition of selling power at the retail level?

(b) Consumer Education. Does the Proposal require any consumer education? For example, how does the proposal protect consumers from "green marketing" programs in which marketers collect twice--once for credit sales and once for "green" power sales, thereby not increasing total green power? This could entail, e.g., disclosure requirements to inform

consumers about the amount of renewable energy they are purchasing that is supported by Renewable Energy Credits, or statements regarding price stability or price risks associated with the seller's resource portfolio. Would RECs accrue to utilities from green-pricing programs where utilities have unique customer information and access?

f.9. How, if at all, does the Proposal relate to RD&D programs funded by the Public Goods Surcharge?

f.10. How, if at all, does the Proposal relate to energy-efficiency programs funded by the Public Goods Surcharge?

f.11. How does this Proposal affect CEQA compliance work recently initiated by the Commission?

2. Issues that Must be Addressed by the Legislature

a. Legislative Requirements

a.1. Can the Commission implement this proposal by itself, or is legislation needed? What is the status of entities not under the Commission's jurisdiction in this program?

a.2. What steps are needed to implement the program, and how long would it take? How does this implementation timing relate to the Commission's 1998 implementation goal?